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INTERNAL OVERSIGHT

INTERNAL AUDIT AND OVERSIGHT ACTIVITIES

Report of the Administrator

SUMMARY

The present report is submitted pursuant to the arrangements agreed upon at the second regular session 1998. The report provides details of internal audit and oversight services provided by the UNDP Office of Audit and Performance Review for the year ended 31 December 1997.

A recommendation for Executive Board action may be found in chapter VI.

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I. INTRODUCTION

1. The Administrator is pleased to provide the Executive Board with the second annual report on internal audit and oversight services provided by the UNDP Office of Audit and Performance Review (OAPR) for the year ended 31 December 1997.

2. In addition to UNDP, OAPR also provides internal audit and oversight services to the United Nations Office for Project Services (UNOPS) and to the United Nations Population Fund (UNFPA). Sections of the report related to internal audit, oversight and accountability; organization and resources; and quality service initiatives apply equally to all three organizations. However, detailed discussions of the audit and oversight activities carried out on behalf of UNFPA and UNOPS are included in separate reports, which are being submitted to the Executive Board at its present session by the Executive Director, UNOPS (DP/1998/24/Add.1), and the Executive Director, UNFPA (DP/FPA/1998/7).

II. INTERNAL AUDIT, OVERSIGHT AND ACCOUNTABILITY

3. The Administrator is fully committed to establishing an improved culture of accountability in the organization, which will help to ensure that UNDP business is carried out economically, efficiently and effectively. Moreover, such a culture will ensure that managers apply and conscientiously follow best management standards and that staff at all levels are held accountable for their performance and resource utilization.

4. In order to nurture and achieve a new level of accountability, UNDP, as discussed in Executive Board document DP/1996/35, proposed a new accountability framework, which was supported by the Executive Board in its decision 96/36. As the Board may recall, the new accountability framework involves the following four elements: UNDP mandate, its mission and its goals; shared values; capabilities; and monitoring and learning. OAPR has been assigned responsibility for coordinating the implementation and oversight of the accountability framework. Funding has now been identified to assist in the implementation of phase I, which will include three headquarters units and a regional bureau, together with its associated country offices.

5. In 1996, the Administrator established a Management Review and Oversight Committee (MROC) for UNDP. Chaired by the Associate Administrator, its membership includes the United Nations Under-Secretary-General of the Office for Internal Oversight Services and senior UNDP managers. The Committee provides advice and oversight on internal audit, investigations, evaluation and other matters related to accountability. OAPR acts as secretariat for the Committee, which met three times during 1997.

6. At the end of the year, UNDP issued its first accountability bulletin to all staff. The bulletin outlined the decisions resulting from a number of disciplinary and performance cases that had been dealt with during 1997. The purpose of the bulletin was to provide guidance to UNDP staff on organizational values and unacceptable conduct and performance.

7. The Administrator is pleased to advise the Board that the audit and oversight activities of OAPR during the year have contributed to a heightened awareness of internal control frameworks and improved practices throughout the organization.

III. ORGANIZATION AND RESOURCES

8. At headquarters, OAPR is organized into the Office of the Director and five Sections: Internal Audit Services; Management Review and Analysis Services; National Execution Services; UNOPS Audit Services; and UNFPA Audit Services. During 1997,OAPR strengthened its two Regional Audit Service Centres, through the outposting of Chiefs, who report to the Director, and the recruiting of additional staff. As at 31 December, OAPR had 39 authorized posts (see table 1 below).

Table 1. Authorized posts as at 31 December 1997

OAPR	Director	Chiefs	Auditors	Audit Assistants	Support	Total
UNDP						
Office of the Director	1	-	-	-	1	2
Internal Audit Services Section	-	1	5	-	2	8
Management Review and Analysis Services Section	-	1	1	3	-	5
National Execution Services Section	-	1	2	2	-	5
Regional Audit Service Centre (Zimbabwe)	-	1	3	-	2	6
Regional Audit Service Centre (Malaysia)	-	1	2	-	-	3
Subtotal UNDP	1	5	13	5	5	29
UNOPS Audit Services Section	-	1	4	1	1	7
UNFPA Audit Services Section	-	1	1	-	1	3
TOTAL	1	7	18	6	7	39

9. In addition to internal staff resources, OAPR contracted with public accounting firms to conduct audits of country office operations in the Africa and Arab States regions.

10. Additional resources were approved in the biennium budget for 1998-1999 to enable OAPR to open two more Regional Audit Service Centres (one in the Latin America and the Caribbean region in 1998, and one in the Arab States region in 1999). In addition, funds were provided to expand the contracted audits of country offices. By the end of 1999, a regime will be in place to provide for contracted audits of country offices every two years.

11. In accordance with the recommendations made by the External Board of Auditors, OAPR transferred responsibility for the coordination of the production

and distribution of UNDP manuals to the Division for Operational Policies and Procedures (DOPP) of the Bureau for Policy and Programme Support (BPPS) in February 1997. The transfer also included the reassignment of three OAPR posts that were involved in the activity to DOPP/BPPS (now DOPP/Operations Support Group).

IV. QUALITY SERVICE INITIATIVES

12. In order to enhance the quality of its service and practices, OAPR continued the programme of quality service initiatives (QSI) initiated in 1996, which was reinforced by training for all headquarters staff in a three-day Creating Change Through Teamwork Workshop. Through the QSI exercise, which stresses client and stakeholder satisfaction as well as employee involvement and innovation, OAPR seeks to become: (a) for clients, an instrument of learning as well as control and oversight; and (b) for stakeholders, an instrument for improved performance and accountability. One outcome of this process was the appointment of a Change Coordinating Team to coordinate the work of QSI as well as to capitalize on the training received on teamwork.

13. Nine QSI teams were established and prepared terms of reference for decentralized management, contracts, administrative support, human resources, office automation, information sharing, audit techniques, professional practices, and reporting and communications. Outputs from this process in 1997 have included the approval of guidelines on core competencies, working papers and an independent review. At the end of 1997, all QSI teams were in the process of preparing work plans for 1998 to support the Director's compact with the Administrator.

V. INTERNAL AUDIT AND OVERSIGHT SERVICES

A. General

14. The information in table 2 below summarizes the output of OAPR for the year. Overall, OAPR issued 141 reports during 1997. Of particular interest were three joint audits carried out with the External Board of Auditors, and a joint review of certain aspects of a country office with United Nations Children's Fund internal auditors. More joint efforts are planned for the future.

15. During the year, OAPR organized a five-day investigation training course for most of its Professional staff. The course was also attended by a number of participants from other organizations in the United Nations system. In addition, a two-day workshop on risk-based approaches to audit planning was held and a three-day training course on team-building was organized by the Office of Human Resources for all New York-based OAPR staff.

Table 2. Audit and oversight services provided in 1997

	In process (01/01/97)	Projects initiated	Reports issued	In process (31/12/97)
UNDP Internal Audit Services	36	69	48	57
National Execution Audit Services	5	6	8	3
UNOPS Audit Services	5	24	25	4
UNFPA Audit Services	33	39	43	29
Special Audits/Investigations	5	24	17	12
TOTAL	84	162	141	105

B. Internal audits

16. During 1997, OAPR provided internal audit services to 69 of the 132 country offices and issued 48 internal audit reports, which contained 1,255 recommendations. Of these 1,255 recommendations, 935 (75 per cent) were accepted by auditees and have been or are being implemented. The remaining 320 recommendations (25 per cent) are being followed up. The distribution of recommendations by function is as follows:

Organizations and financial operations	188
Programme matters	306
General administration	275
Personnel administration	345
Office automation	141
TOTAL	1 255

17. Internal audits identified the following issues, which have organization-wide implications.

1. Organization and financial operations

18. Support to United Nations resident coordinators. In the past, UNDP resident representatives/United Nations resident coordinators have spent a substantial amount of time, up to 50 per cent or more of their time in some cases, coping with the increased resident coordinator functions. Although temporary assistance was made available through other sources, regular staff were not always available to assist the resident representatives/resident coordinators in carrying out and following up on their resident coordinator

functions. As a result, resident representatives/resident coordinators must either "sacrifice" their own evenings and weekends or "burden" colleagues from UNDP country offices. A small unit with one or two staff members under the office of the resident coordinator would greatly facilitate the resident representatives/resident coordinators in their efforts to carry out and follow up resident coordinator functions in a systematic way. A cost-effective way to do this may be to staff the unit with United Nations Volunteers (UNV) specialists or national officers as appropriate.

19. Authority to sign co-financing agreements by funds administered by UNDP. According to the UNDP Financial Regulations and Rules, only the UNDP Administrator has the authority, unless he delegates it formally, to sign trust fund agreements with donors. However, a number of such agreements were signed by UNV management without proper prior delegation of authority by the UNDP Administrator. In view of the fact that the same situation might arise with regard to other funds administered by UNDP, there is a need to reiterate the rules to all fund managers. The Bureau for Financial and Administrative Services (BFAS) is currently formulating guidelines concerning the authority by funds administered by UNDP to sign agreements for fully funded and cost-sharing arrangements.

20. UNDP certifying officer function with respect to payments made on behalf of other United Nations organizations. Except in the case of UNFPA and the World Food Programme, which have their own certification processes, UNDP country offices make payments on behalf of other United Nations organizations, based on authorizations from those organizations. In some country offices, these payments account for 75 per cent of their total disbursements. For these transactions, the designated staff members in country offices affix their signatures to the disbursement vouchers as certifying officers. The country offices have requested an amendment to the UNDP Finance Manual to explicitly state that UNDP country offices, in certifying the disbursement vouchers, are acting only as paying agents and that the certifying function rests with the organization that authorized the payment. BFAS is reviewing the applicable provisions of the UNDP Finance Manual.

21. Follow-up with Governments on their contributions to country office costs. At the end of 1997, government contributions towards the costs of country offices were outstanding in a number of countries. While the reasons that the Governments delayed the payments of their contributions varied, the problem affected UNDP cash management. Country offices concerned were requested to follow up vigorously with the Governments and to ensure timely payments.

22. Vendor listing. It was noted that vendors were listed more than once in the Automated Field Office Accounting System (AFOAS) in several country offices. This allows for the possibility of double payments of invoices, especially when relying on the AFOAS information to determine whether or not payment was made, and may result in fraud as a result of the loss of internal control. Country offices were requested to scrutinize vendor listings regularly.

23. Holders of Special Service Agreements (SSAs) as approving officers and bank signatories. An individual, engaged under an SSA to fulfil the duties of an operations manager, was empowered to act as the approving officer and bank

signatory in a country office. Since individuals engaged under SSAs are not governed by the United Nations Staff Rules and the current standard SSA contract does not include a clause addressing the accountability of subscribers, such empowerment does not provide UNDP with a contractual basis to hold the subscribers accountable in the event of improper use of their financial authority that leads to a loss for the organization. This is an important issue, given that financial authority has been extended to "personnel" rather than only to "officials" as in the past. BFAS is consulting with the Legal Section of OHR to establish a clause to be included ad hoc in SSA contracts.

2. Programme matters

24. Programme financial management. Due to changes in programme modalities, the old Programme and Project Management System is considered unsuitable in many aspects. Pending the implementation of the Financial Information Management System (FIMS), a number of country offices developed systems (using spreadsheet software for the most part) to manage programme budgets and expenditures. A number of issues were identified in this regard. For example, one country office, which used the Lotus software to control expenditures, borrowed $4 million from the next programming period and subsequently noted that there was a savings of $4.1 million in the current programming period. With the implementation of FIMS, which began in 1997, this issue should be resolved.

25. Lower programme delivery rates. Despite significant efforts made by UNDP at headquarters and country offices, programme delivery rates in some countries were still low relative to commitments. Reasons for this include the long gestation period for the formulation of programmes and projects and, under national execution, the very complicated and restricted government procurement and recruitment procedures and regulations in some countries. Further efforts to improve programme delivery rates are being made both at UNDP headquarters and in country offices.

26. Monitoring of ongoing programmes and projects. Timely monitoring of activities under ongoing programmes and projects is a way to ensure the proper implementation of these activities and their quality. In accordance with the UNDP Programme and Projects Manual, tripartite review meetings and project performance evaluation reports are part of the established monitoring mechanisms. It was noted that many tripartite reviews and project performance evaluation reports had not been held and submitted in a timely manner.

27. Operationally completed projects. Almost all country offices have a number of operationally completed projects that have not been financially closed on time. Reasons for this include: delayed receipt of final programme delivery reports and lists of equipment procured from executing agencies; delayed completion of formalities of equipment transfer by Governments; and lack of attention to operationally completed projects by country offices. As a result of the above, final tripartite review meetings and terminal reports for the projects could not be held and finalized in a timely manner, resulting in failures to complete final project revisions and report project achievements.

3. General administration

28. Maintenance and updating of field office inventory system (FOINVENT) records. Audits revealed a number of errors in FOINVENT records due to items not being recorded accurately and errors in their stated costs. It was also noted that some country offices had not taken a physical inventory for several years, and that the inventory records maintained in the offices and at UNDP headquarters had not been synchronized. Furthermore, country offices need to extend their efforts to properly maintain and update project inventories.

29. Excess of office vehicles. Through a circular issued on 15 July 1996, UNDP established the guidelines and criteria to determine the number of vehicles authorized in each country office on the basis of one vehicle for the resident representative and one vehicle for every three Professional staff members. However, it was noted that some country offices still possess more vehicles than their entitlements.

4. Personnel administration and management

30. Staff training and organization requirements. Every year, a number of staff members in country offices are provided with opportunities for training programmes, either locally or abroad. Many other staff members also attend language and computer hardware and software workshops and training courses. However, it was noted that little effort had been made to assess the impact of these training programmes. It was also noted that there was a need to formally link the training programmes and workshops with the offices' requirements. OHR has initiated a process to assess the impact of training courses.

5. Office automation

31. Headquarters inventory system (HQINVENT). An application systems review was conducted of HQINVENT in the second quarter of the year. The overall opinion was that the application has major control weaknesses around the issues of completeness and accuracy of data and error-handling routines. Although OAPR recommended short-term corrective actions for the 12 control weaknesses identified in the audit, OAPR believes that a more efficient solution would be to consider replacing HQINVENT with an automated application that is linked to an automated procurement or purchasing system. The Division for Administrative and Information Services (DAIS) agrees with the OAPR report on the subject and is considering several options for a new inventory system that could be linked to a procurement system that would be able to record every asset that is purchased by the organization.

32. Integrated Management Information System (IMIS) - the year 2000. In the second quarter of 1997 OAPR attended a demonstration of IMIS, the information management system developed by the United Nations. Based on the demonstration and discussions with the consulting firm that was involved in its development, OAPR prepared detailed observations concerning weaknesses in the system that require further analysis, which were submitted to the IMIS project team. OAPR is planning to assign its information systems auditor full time to the IMIS 2000

team in 1998, since the development of this system carries the highest risk if United Nations and UNDP financial information systems are not year-2000 compliant by the deadline.

C. Management advice

33. With the 2001 change process under way in UNDP and following a proactive and preventive approach, in 1997, OAPR again devoted significant resources to providing advisory services to assist UNDP managers.

34. Some of the OAPR advisory services that contributed to the assessments of the internal control framework included: participation in the Integrated Programme Management and the Programme Management Oversight Committees; the review of audit requirements for undertakings financed by specific donors and carried out by UNDP; the development of risk assessment guidelines for application to private sector interaction with UNDP; the elaboration of and advice to senior management on potential issues for UNDP to take into account in anticipation of significant collaboration with civil society organizations; and advice to senior management on disciplinary processes.

35. Similar to the services noted above, OAPR also performed important functions whose objective was the improvement of accountability awareness and practice in UNDP. The scope of these advisory services was wide and included advice on internal control frameworks provided to resident representatives and to groups of managers (such as deputy resident representatives and operations managers).

36. OAPR also participated in task forces that contributed to increased accountability and performance. OAPR continues to participate in a key task force led by BFAS on the review of basic internal control applications throughout UNDP, with emphasis on the certifying officer and approving officer functions.

37. OAPR provided advice on the development of information systems, notably FIMS and the Electronic Document Management System. OAPR worked with the project team to review internal controls, security and audit trails and communicated the results of the analysis of internal controls directly to the project team members for incorporation into the project design.

D. National execution

38. UNDP Financial Regulation 17.2 requires Governments to submit audited financial reports for nationally executed projets and programmes. The function of the National Execution Section of OAPR is to administer and monitor the audit process.

39. Over the years, OAPR has been collaborating closely with the Board of Auditors towards the establishment of measures that would allow removal of the qualification of the national execution audited expenditure from the reports of the United Nations Board of Auditors. The External Auditors have not been

satisfied with the extent of audit coverage and OAPR has been collaborating with them on means whereby coverage could be increased.

40. In consultation with country offices, OAPR has been producing national execution audit plans in line with revised Financial Regulation 17.2, which requires that each project be audited at least once in its lifetime. For the 1996 and 1997 audits and in consultation with the External Auditors, an effort was made to identify large projects with a certain expenditure level, bearing in mind the once-in-a-lifetime concept, which would provide for receipt of at least 65 per cent of audited expenditure coverage by 15 June each year.

41. During 1997, OAPR continued to work towards the objectives of Governing Council decision 88/18 on government execution. OAPR undertook six new audit missions and completed five audit assignments from 1996. By year end, eight reports had been issued. However, OAPR is unable to attest to the rate of implementation of the recommendations at the time of writing, since the Office has not been able to undertake any follow-up on the audit reports issued.

42. Most of the major issues that arose from the national execution audit missions undertaken in 1997 were similar to those in 1996 and can be summarized as follows:

(a) Capacity assessment by country offices is not undertaken consistently before engaging in the national execution modality, resulting in an absence of managerial capacity or inappropriate and inefficient project management;

(b) Lack of and unclear instructions on UNDP policies and procedures;

(c) Failure to familiarize all parties concerned at an early stage with the national execution financial accounting system, including budget management, monitoring and evaluation procedures and requirements, with resultant errors and omissions;

(d) Delayed delivery by UNDP of year-end financial statements, some of which were dispatched with many errors;

(e) Failure to transfer UNDP staff expertise to project management and insufficient financial and management oversight by some country offices of project operations;

(f) Implementation of projects by autonomous institutions that are not included in the chain of accountability established by the programme country Governments.

43. The above-mentioned issues were considered during the 1997 development of revised guidelines on national execution and OAPR will follow up on them during future discussions with personnel in country offices, government officials, auditors and project managers.

44. The timeliness of the submission of audit reports by countries remains problematic. Despite the sending of numerous reminders to country offices about the importance of the 30 April deadline for the submission of audit reports,

only 50 countries with audited expenditure of $456 million provided their audit reports by this deadline. In total, for the year ended 1996, OAPR received during 1997 audit reports from 106 countries with audited expenditure of $632 million out of a total reported expenditure of $897 million.

45. During 1997 a total of 100 Letters of Evaluation were prepared as a result of OAPR review of audit reports submitted: 33 pertained to the 1995 audit and 34 to the 1996 audit reports. The remaining 29 Evaluation Letters are under preparation for transmission to country offices in February 1998.

46. OAPR undertook desk evaluations of the audit reports produced by government auditors for the purposes of carrying out an assessment of the functioning of the projects and programmes; the functioning of the project and programme management; and auditors' adherence to the audit scopes, which are financial operations, management structure and internal control, monitoring, evaluation and reporting, and equipment management.

47. The desk evaluations performed disclosed the following:

(a) All of the audit scope elements were not covered. While comments and observations were generally provided for financial operations and equipment management, the number of comments on monitoring, evaluation and reporting and management was limited;

(b) The comments or observations on the scope covered were insufficient, thus limiting assessment of the management of projects;

(c) Weaknesses in internal control procedures and the management structures of projects, including inadequacy of staffing, inadequate supporting documentation and record-keeping systems and poor equipment management;

(d) Cases of inadequate or improper use of project funds or non-expendable equipment.

E. Special audits and investigations

48. The number of special audits and investigations increased dramatically in 1997, which had a significant impact on the ability of OAPR to complete its regularly scheduled audits and reviews.

49. In addition to the activities related to the Reserve for Field Accommodation, which continued to account for the utilization of significant resources in 1997, a total of 20 new cases were undertaken by OAPR during the year. In addition, two cases were initiated in cooperation with the United Nations Office of Internal Oversight Services and two special audits were conducted with contracted resources.

50. The first annual accountability bulletin was issued to all UNDP staff at the end of the year. The bulletin summarized the results of a number of conduct and disciplinary cases.

VI. EXECUTIVE BOARD ACTION

51. The Executive Board may wish to:

1. Take note of the report of the Administrator on internal audit and oversight services (DP/1998/26);

2. Express support for the continued strengthening of UNDP internal audit and oversight resources.